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**IN THE UNITED STATES BANKRUPTCY COURT**
**FOR THE SOUTHERN DISTRICT OF NEW YORK**

| | | |
|---|---|---|
| **IN RE:** | ) | |
| | ) | |
| **LEHMAN BROTHERS HOLDINGS, INC.** | ) | **Case No. 08-13555-jmp** |
| | ) | |
| **Debtor.** | ) | **Chapter 11** |
| | ) | |
| | ) | |

**MEMORANDUM OF LAW**
**IN SUPPORT OF AMENDED MOTION**
**FOR APPOINTMENT OF EQUITY COMMITTEE**

**COMES NOW, Greg Georgas,** an equity-security holder of the above-named debtor, Lehman Brothers Holdings, Inc. ("Lehman"), by and though his undersigned attorney, and files this his MEMORANDUM OF LAW IN SUPPORT OF AMENDED MOTION FOR APPOINTMENT OF EQUITY COMMITTEE, respectfully showing as follows:

## ARGUMENT AND CITATION OF AUTHORITY

By letter dated October 7, 2008, Greg Georgas, by and through his undersigned attorney, formally requested that the U.S. Trustee appoint an Official Equity Committee. See request letter dated October 7, 2008, attached and incorporated herein as Exhibit "A." By letter dated October 9,

2008, the U.S. Trustee declined to appoint an Official Equity Committee. See letter of U.S. Trustee dated October 9, 2008, attached and incorporated herein as Exhibit "B." The Movant respectfully shows that the Trustee has erred in her decision, and the Court should direct the Trustee to appoint an Equity Committee.

**I. This Court should appoint an Official Equity Shareholders' Committee pursuant to 11 U.S.C. 1102 (a) (2), because of the very large number of shareholders, because of the extremely high degree of complexity of the case, and because the cost of an Official Equity Committee is insignificant compared to the concern for adequate representation in a case reporting $28 Billion of audited shareholder equity.**

11 U.S.C. § 1102 (a) (2) provides that:

> On request of a party in interest, the court may order the appointment of additional committees of creditors or of equity security holders. The United States Trustee shall appoint any such committee.

The statute involves two inquiries. It must first be determined whether the appointment of a committee is necessary to assure adequate representation. If it is, then the Court must consider whether it should exercise its discretion and make the appointment. *In re Wang Laboratories, Inc.*, 149 B.R. 1, 2 (Bankr.E.D.Mass. 1992). There is no statutory test of "adequacy of representation" and it must be determined by the facts of the case. *In re Beker Industries Corp.*, 55 B.R. 945, 948 (Bankr.S.D.N.Y. 1985).

"Adequate representation" begins with the test outlined in *In re Johns-Manville Corp.*, 68 B.R. 155, 159 (Bankr.S.D.N.Y. 1986), which consists of three parts: 1) the number of shareholders; 2) the complexity of the case; and 3) whether the cost of the additional commitee significantly outweighs the concern for adequate representation.

### A. The number of Lehman shareholders warrants the appointment of a Shareholders' Committee.

The Rule 1007-2 Affidavit of Ian T. Lowitt, confirms that Lehman has "issued various securities to the public", that "approximately 700 million shares of Lehman's common stock are publicly traded on the New York Stock Exchange", and that Lehman "has issued several classes of preferred stock, warrants, and trust-preferred securities." See Docket Number 2, Affidavit of Ian T. Lowitt of September 14, 2008 at paragraph 17. This significant number is sufficient to satisfy the first factor of the *Johns-Manville* equation.

### B. The complexity of the case warrants the appointment of a Shareholders' Committee.

The Court should consider the "weight of the evidence" to support a positive finding of complexity. *Wang Industries*, 149 B.R. at 3.

The Rule 1007-2 Affidavit of Ian T. Lowitt states that Lehman offers a full array of financial services in equity and fixed income sales, trading and research, investment banking, asset management, private investment management and private equity. See Affidavit of Lowitt at paragraph 5. Lehman has significant assets in North America, Europe, the Middle East, Latin America, and the Asia Pacific region. See Affidavit of Lowitt at paragraph 6. Lehman operates in three business segments, Capital Markets, Investment Banking, and Investment Management. See Affidavit of Lowitt at paragraph 7. The weight of the evidence is that the complexity of these business operations and their related national and global transactions is sufficient to satisfy the second factor of the *Johns-Manville* equation.

As in *Wang Industries*, there have been hundreds of filings in the instant case, which is another indicia of complexity. *Id.*

Movant respectfully submits that this case, reportedly the largest Chapter 11 ever, being administered during a time of national and worldwide economic uncertainty, should certainly satisfy the complexity requirement.

**C. <u>The cost of a Shareholders' Committee does not significantly outweigh the concern for adequate representation of shareholders.</u>**

The following language of Judge Abram is often cited when addressing the third factor of the *Johns-Manville* equation:

> [G]enerally no equity committee should be appointed when it appears that a debtor is hopelessly insolvent because neither the debtor nor the creditors should have to bear the expense of negotiating over the terms of what is in essence a gift.

*In re Emons Industries, Inc.*, 50 B.R. 692, 694 (Bankr.S.D.N.Y. 1985). After *Emons Industries*, courts have focused on the term "hopelessly insolvent,"when considering the potential cost of an Official Equity Committee.

The well-reasoned *Wang Industries* case involved a Trustee who deemed the appointment of an Equity Committee to be inappropriate because the Debtor was insolvent. The Court disagreed, stating "[t]his is not a simple matter of statutory construction where the Court can rest with citation to the balance sheet test of 11 U.S.C. § 101 (32). Each party has its own view of the relevant considerations." *Wang Industries*, 149 B.R. at 3. In that case, the Debtors' shares were still trading actively on the American Stock Exchange at a value in excess of zero, the Debtor remained in operation, albeit at a loss, and the Debtor would not concede that it was insolvent upon filing. *Id.* at 3.

Likewise, Lehman remains in operation, but it did not have an operating loss prior to filing. The common shares continue to trade on the New York Stock Exchange in excess of zero. Lehman

estimated that funds will be available for distribution to unsecured creditors. See Docket Number 1, Voluntary Petition. Under *Wang Industries*, these facts do not render Lehman hopelessly insolvent.

Not every case has applied the reasoning of *Wang Industries*. Cases such as *In re Williams Communications Group, Inc. and CG Austria, Inc.*, 281 B.R. 216 (Bankr.S.D.N.Y. 2002), a more recent case from this district, have taken a different approach. In that case, the Court declined to appoint an Official Equity Committee, finding that the debtor was hopelessly insolvent for several reasons, including having liabilities exceeding assets and having Creditors' Committees with similar motivations as an Equity Committee in critically examining the Debtors' and banks' valuations. *Williams Communications* at 220. The Trustee examined the Debtors' filings with the SEC and the Bankruptcy Rule 1007-2 affidavit, among other documents, in reaching his conclusion. *Id.* at 219. The Court also indicated that forming an equity committee would cause a delay in the case. *Id.* at 223. The facts in the Lehman case are clearly distinguishable.

In its 10-Q SEC filing for the quarterly period ended May 31, 2008, and as confirmed by Exhibit "A" to its Voluntary Petition, Lehman reported total assets of approximately $639 Billion and total liabilities of $613 Billion, leaving $26 Billion in total stockholders' equity. See Lehman Brothers Holdings Inc. SEC Form 10-Q, filed July 10, 2008, pp. 5-6, attached and incorporated herein as Exhibit "C," pp. 5-6. Furthermore, in a press release dated September 10, four (4) days before the filing of its bankruptcy petition, Lehman announced that "total stockholders' equity was an estimated $28.4 billion, up from $26.3 billion at the end of the second quarter of fiscal 2008..." See Lehman Brothers press release dated September 10, 2008, attached and incorporated herein as Exhibit "D," p. 7. In *Williams Communications*, by contrast, liabilities greatly exceeded equity.

The Lehman Creditors' Committee also has no interest in protecting the Shareholders' interest. In a case with $28 Billion of audited shareholders' equity, the creditors have no interest in pressing that for the benefit of shareholders and, rather, have every interest in conflict. The creditors have not had time or opportunity to conduct the due diligence described in *Williams Communications*; that is, "analyzing and investigating the public filings, disclosures and agreements." *Id.* at 222. More importantly, as stated in *Beker*, 55 B.R. at 949:

> In addition, the complex nature of this large case requires representation of Debenture holders and shareholders. As Collier illustrates, the size of a bankruptcy case strongly indicates the need for additional committees representing different interests...A large case brings with it not only a varied debt structure but a complex business requiring significant post-petition financing and a heavily negotiated plan...In short, this is not a case where the Debenture holders and shareholders will be asked merely to vote on a plan. This is a case requiring active participation by Debenture holders and shareholders to protect their interests.

In a case of the Lehman magnitude, not to allow the shareholders the independent opportunity to protect their interest by examining the facts would be unjust, at the very least. The shareholders cannot simply stand by, hoping that the Creditors' Committees will make any more analysis other than that which benefits creditors.

Finally, delay is not an issue in this case, since several valuable assets of Lehman have already been sold and since events have unfolded so rapidly. If anything, shareholders should be allowed some extra time, in which to make a thorough, committed inquiry into these events.

**D. The recently enacted bailout, providing for the purchase of banks' devalued residential real estate backed securities, is a consideration in support of the formation of an Equity Committee.**

Although its implementation remains unclear, the package recently enacted in Washington

has as its purpose the alleviation of institutional distress via the purchase of residential mortgage-related securities. Lehman's Rule 1007-2 affidavit states that "[t]he net loss in the third quarter of 2008 was driven primarily by gross mark-to-market adjustments stemming from writedowns on commercial and residential mortgage and real estate assets." See Affidavit of Lowitt at paragraph 26. Lehman's press release of September 10, 2008 identifies these adjustments as being a negative $5.3 Billion on residential mortgage-related positions. See Exhibit "D," p. 5. While not intended to profit lenders, the bailout is intended to provide a mechanism for the purchase of exactly the sort of securities comprising the bulk of writedowns during Lehman's third quarter.

How the package will apply to Lehman's assets is unknown. However, the possibility of relief, which would be of great interest to shareholders, is an additional factor in support of the appointment of an Equity Committee.

## II. Having determined that the appointment of an Equity Committee is necessary to assure adequate shareholder representation, this Court should exercise its discretion and make the appointment.

The second inquiry is one of judicial discretion. "The Bankruptcy Court reviews the UST's decision de novo." *Williams Communications*, 281 B.R. at 219.

The rapid unfolding of events leading up to Lehman's bankruptcy and the enormous pressure to recover value in a difficult economic environment should not eclipse the original intent of Congress in allowing for equity committees. The stated purpose of this legislation was "to counteract the natural tendency of a debtor in distress to pacify large creditors, with whom the debtor would expect to do business, at the expense of small and scattered public investors." S.Rep. No. 989, 95th Cong.2d Sess. 10 (1978), U.S.Code Cong. & Admin. News 1978, pp. 5787, 5796.

The same Report states:

> [t]he Committee believes that it should be emphasized that investor protection is most critical when the company in which the public invested is in financial difficulties and is forced to seek relief under the bankruptcy laws. A fair and equitable reorganization, as provided in the bill, is literally the last clear chance to conserve for them values that corporate financial stress or insolvency have placed in jeopardy. As public investors are likely to be junior or subordinated creditors or debtholders, it is essential for them to have legislative assurance that their interests will be protected. Such assurance should not be left to a plan negotiated by a debtor in distress and senior or institutional debtors who will have their own best interest to look after.

*Id.*

Although Congress did not guarantee the formation of an equity committee, there is no clearer language than the above to show Congress' concern that shareholders be adequately represented.

Without exaggeration, the Lehman case is enormous and historical. For public investors to be shut out of the process of investigating the disappearance of the $28 Billion of shareholders' equity reported four days prior to bankruptcy would ignore both common sense and the intent of Congress.

## CONCLUSION

This honorable Court should appoint an Official Equity Committee because of the number of Lehman shareholders, because of the complexity of the case, and because the cost of a Committee would be insignificant compared to the $28 Billion of audited shareholders' equity and the concern for adequate representation of shareholders. The Court should also consider the possible effect of the bailout package on Lehman's assets and the clear intent of Congress that public investors' interest be protected.

This 10th day of October, 2008.

Respectfully submitted,

**THE WILSON LAW FIRM, P.C.**

by: /s/ L. Matt Wilson
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October 7, 2008

***Advance via facsimile to: (212) 668-2255***
***Original Via FedEx***

Andy Velez-Rivera, Esq.
Office of the U.S. Trustee
33 Whitehall Street, 21st Floor
New York, NY 10004

**RE: In re: Lehman Brothers Holdings, Inc., In the United States Bankruptcy Court for the Southern District of New York, Case No. 08-13555-jmp.**

**Request for Appointment of Equity Committee**

Dear Mr. Velez-Rivera:

This will serve to confirm, in writing, my previous request that the United States Trustee appoint an official Equity Committee in the above-styled case.

We believe that the shareholders of Lehman Brothers are not adequately represented in this case, and we note the three-part test of *In re: Johns-Manville Corporation*, 68 B.R. 155 (S.D.N.Y. 1986), which considers: (1) the number of shareholders; (2) the complexity of the case; and (3) whether the cost of the additional committee significantly outweighs the concern for adequate representation. We believe the first two prongs are easily met, based on there being over 690 million outstanding shares and based on the magnitude of issues in the case. Likewise, where the Debtor announced audited stockholders' equity of $26.3 billion dollars on May 31, 2008, and projected equity of $28.4 billion dollars for its 2008 third-quarter filings, the potential loss to investors would certainly appear to warrant the cost of their adequate representation. This is especially true since shares are still trading, the company reported an operating profit, and there is no report of any accounting irregularities.

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THE WILSON LAW FIRM
A GEORGIA PROFESSIONAL CORPORATION



Based on the rapidity of events preceding the filing, the complexity of the case, and the potential loss to shareholders, in conjunction with the recent events in Washington, we respectfully ask that you favorably consider our request to appoint an official equity shareholders' committee.

Please contact me if you have any questions or require further information.

Sincerely,

L. Matt Wilson, Esq.

DDF:lee
cc: Harvey R. Miller, Esq. *(via FedEx)*
Dennis C. O'Donnell, Esq. *(via FedEx)*
Greg Georgas

Z:\WP\830\01\US Trustee-02.ltr.wpd

**U.S. Department of Justice**

Office of the United States Trustee

*Region 2/Southern District of New York*

33 Whitehall Street, Suite 2100
New York, NY 10004

Phone: 212-510-0500
Fax: 212-668-2255

October 9, 2008

**(By E-mail)**
L. Matt Wilson, Esq.
The Wilson Law Firm
950 E. Paces Ferry Road
Atlanta, GA 30326-1388

**Re: In re Lehman Brothers Holdings, Inc., *et al.*, Chapter 11 Case No. 08-13555 (JMP)**

Dear Mr. Wilson:

This is in response to your letter dated October 7, 2008, in which, on behalf of your client, Mr. Greg Georgas, you request that the United States Trustee appoint an official committee of equity security holders of Lehman Brothers Holdings, Inc.

The United States Trustee has reviewed and considered your letter, as well as the Amended Motion for Appointment of Equity Committee (the "Motion"), filed by Mr. Georgas Docket No. 293. For the reasons set forth in our objection to the Motion, which will be filed in due course, the United States Trustee is declining to appoint an official equity committee at this time.

Very truly yours,

DIANA G. ADAMS
UNITED STATES TRUSTEE

*/s/ Andrew D. Velez-Rivera*
Trial Attorney

cc: Diana G. Adams, United States Trustee
Tracy Hope Davis, Assistant United States Trustee
Linda A. Riffkin, Assistant United States Trustee
Paul K. Schwartzberg, Trial Attorney
Harvey R. Miller, Esq.
Shai Y. Waisman, Esq.
Dennis F. Dunne, Esq.
Dennis C. O'Donnell, Esq.

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**LEHMAN BROTHERS HOLDINGS INC.**
**Consolidated Statement of Financial Condition**
**(Unaudited)**

| In millions | At May 31, 2008 | At Nov 30, 2007 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 6,513 | $ 7,286 |
| Cash and securities segregated and on deposit for regulatory and other purposes | 13,031 | 12,743 |
| Financial instruments and other inventory positions owned (includes $ 43,031 in 2008 and $63,499 in 2007 pledged as collateral) | 269,409 | 313,129 |
| Collateralized agreements: | | |
| Securities purchased under agreements to resell | 169,684 | 162,635 |
| Securities borrowed | 124,842 | 138,599 |
| Receivables: | | |
| Brokers, dealers and clearing organizations | 16,701 | 11,005 |
| Customers | 20,784 | 29,622 |
| Others | 4,236 | 2,650 |
| Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $ 2,697 in 2008 and $2,438 in 2007) | 4,278 | 3,861 |
| Other assets | 5,853 | 5,406 |
| Identifiable intangible assets and goodwill (net of accumulated amortization of $ 361 in 2008 and $340 in 2007) | 4,101 | 4,127 |
| Total assets | $639,432 | $691,063 |

See Notes to Consolidated Financial Statements.



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**LEHMAN BROTHERS HOLDINGS INC.**
**Consolidated Statement of Financial Condition—(Continued)**
**(Unaudited)**

| In millions, except share data | At May 31, 2008 | At Nov 30, 2007 |
|---|---|---|
| **Liabilities and Stockholders' Equity** | | |
| Short-term borrowings and current portion of long-term borrowings (including $9,354 in 2008 and $9,035 in 2007 at fair value) | $ 35,302 | $ 28,066 |
| Financial instruments and other inventory positions sold but not yet purchased | 141,507 | 149,617 |
| Collateralized financings: | | |
| Securities sold under agreements to repurchase | 127,846 | 181,732 |
| Securities loaned | 55,420 | 53,307 |
| Other secured borrowings (including $13,617 in 2008 and $9,149 in 2007 at fair value) | 24,656 | 22,992 |
| Payables: | | |
| Brokers, dealers and clearing organizations | 3,835 | 3,101 |
| Customers | 57,251 | 61,206 |
| Accrued liabilities and other payables | 9,802 | 16,039 |
| Deposit liabilities at banks (including $10,252 in 2008 and $15,986 in 2007 at fair value) | 29,355 | 29,363 |
| Long-term borrowings (including $27,278 in 2008 and $27,204 in 2007 at fair value) | 128,182 | 123,150 |
| Total liabilities | 613,156 | 668,573 |
| Commitments and contingencies | | |
| **Stockholders' Equity** | | |
| Preferred stock | 6,993 | 1,095 |
| Common stock, $0.10 par value: | | |
| Shares authorized: 1,200,000,000 in 2008 and 2007; | | |
| Shares issued: 612,948,910 in 2008 and 612,882,506 in 2007; | | |
| Shares outstanding: 552,704,921 in 2008 and 531,887,419 in 2007 | 61 | 61 |
| Additional paid-in capital | 11,268 | 9,733 |
| Accumulated other comprehensive loss, net of tax | (359) | (310) |
| Retained earnings | 16,901 | 19,698 |
| Other stockholders' equity, net | (3,666) | (2,263) |
| Common stock in treasury, at cost (60,243,989 shares in 2008 and 80,995,087 shares in 2007) | (4,922) | (5,524) |
| Total common stockholders' equity | 19,283 | 21,395 |
| Total stockholders' equity | 26,276 | 22,490 |
| Total liabilities and stockholders' equity | $639,432 | $691,063 |

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS

# Press Release

*For Immediate Release*

**Media Contacts:** Monique Wise
1-646-333-9056
**Investor Contact:** Shaun Butler
1-212-526-8381

## LEHMAN BROTHERS ANNOUNCES PRELIMINARY THIRD QUARTER RESULTS AND STRATEGIC RESTRUCTURING

### Comprehensive Set of Actions to Significantly Reduce Commercial Real Estate, Residential Mortgage and Other Less Liquid Asset Exposures

### Intention to Sell Majority Stake in Investment Management Division

- **Expected Third Quarter Earnings Results**
  - Estimated Net Loss of ($3.9) Billion or ($5.92) Per Common Share (Diluted)
  - Gross Mark-to-Market Adjustments of ($7.8) Billion; Net Mark-to-Market Adjustments of ($5.6) Billion, After Hedging Gains and Debt Valuation Gains. Gross Mark-to-Market Adjustments Include:
    - ($5.3) Billion on Residential Mortgage-Related Positions
    - ($1.7) Billion on Commercial Real Estate Positions
  - Estimated Net Revenues of ($2.9) Billion
  - Third Quarter Run-Rate Revenues of $3.5 Billion
  - Ended Third Quarter with:
    - Total Stockholders' Equity of $28.4 Billion, Up from $26.3 Billion
    - Net Leverage Ratio of 10.6x, Improved from Second Quarter of 12.1x
    - Gross Leverage Reduced to 21.1x from 24.3x at the End of the Second Quarter
  - Estimated Liquidity Pool of $42 Billion
  - Estimated Tier 1 Ratio of Approximately 11.0%, Up From 10.7%

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- **Significant Reduction in Residential Mortgages, Commercial Real Estate and Other Less Liquid Assets**
  - Residential Mortgage Exposure Reduced by 47% to $13.2 Billion, Pro Forma for Pending UK Mortgage Transaction
  - Commercial Real Estate Exposure Reduced by 18% from $39.8 Billion to $32.6 Billion
  - High Yield Acquisition Finance Exposure Reduced by 38% from $11.5 Billion to $7.1 Billion

- **Spin-off to Lehman Brothers' Shareholders of Vast Majority of the Firm's Commercial Real Estate Assets into a New, Separate Public Company**
  - Leaves Firm with Limited Commercial Real Estate Exposure
  - Shareholders Retain Upside in Commercial Real Estate Portfolio
  - Expected to be Completed in First Quarter of Fiscal 2009

- **Intention to Sell a Majority Interest in Investment Management Division**
  - Auction Process Highlights Value of Investment Management Business
  - Expected to Result in Tangible Book Value Benefit of More Than $3.0 Billion
  - Lehman Brothers Expects to Maintain the Majority of the Pre-Tax Income of the Investment Management Division
  - Ongoing Strategic Relationship Maintained with Lehman Brothers

- **Annual Dividend to be Reduced to $0.05 Per Share**

- **The Firm Remains Committed to Examining All Strategic Alternatives to Maximize Shareholder Value**

NEW YORK, September 10, 2008 – Lehman Brothers Holdings Inc. (ticker symbol: LEH), the global investment bank, announced today, in conjunction with its preliminary third quarter results, a comprehensive plan of initiatives to reduce dramatically the Firm's commercial real estate and residential mortgage exposure, generate additional capital through the sale of a majority stake of the Investment Management Division and reduce the annual dividend, in order to maximize value for clients, shareholders and employees.

Chairman and Chief Executive Officer Richard S. Fuld, Jr. said, "This is an extraordinary time for our industry, and one of the toughest periods in the Firm's history. The strategic initiatives we have announced today reflect our determination to fundamentally reposition Lehman

Brothers by dramatically reducing balance sheet risk, reinforcing our focus on our client-facing businesses and returning the Firm to profitability."

## STRATEGIC INITIATIVES

### Significant Reduction in Residential Mortgage and Commercial Real Estate

Lehman Brothers took several steps to significantly reduce its real estate portfolio in the third quarter. The Firm reduced its residential mortgage exposure by 31% to $17.2 billion. Further, Lehman Brothers is formally engaged with BlackRock Financial Management, Inc. to sell approximately $4.0 billion of the Firm's UK residential mortgage portfolio and expects to complete the sale within the next few weeks. Pro forma for this transaction, the Firm's residential mortgage exposure is expected to be reduced by 47% to $13.2 billion. Lehman Brothers also reduced its commercial real estate exposure by 18% in the third quarter from $39.8 billion to $32.6 billion.

### Spin-Off of Commercial Real Estate Assets

The Firm intends to spin off to its shareholders $25 billion to $30 billion of its commercial real estate portfolio into a separate publicly-traded company, Real Estate Investments Global ("REI Global"), in the first quarter of 2009. The spin-off of REI Global will strengthen Lehman Brothers' balance sheet while preserving the value of the commercial real estate ("CRE") portfolio for shareholders.

The concentration of positions in commercial real estate-related assets has become a significant concern for investors and creditors. Therefore, Lehman Brothers believes that it is in the best interests of all its constituents to separate these assets from the rest of the Firm. Transferring the vast majority of the commercial real estate portfolio to REI Global will achieve the following objectives:

- REI Global will be appropriately capitalized to hold the CRE assets through the current economic cycle;
- REI Global will be able to account for its assets on a hold-to-maturity basis;

- REI Global is expected to hold its assets to maximize their value for shareholders;
- REI Global will be able to manage the assets without the pressure of mark-to-market volatility; and
- REI Global will not be forced to sell assets below what REI Global believes to be their intrinsic value.

At the time of formation, REI Global will be appropriately capitalized through the transfer of common equity and provision of debt financing, which the Firm may syndicate as markets normalize. REI Global will own a high quality portfolio of assets, which is diversified by geography, property and lien type. REI Global's primary focus will be to maximize shareholder returns by selling assets or holding them to maturity, whichever provides the greatest return. REI Global will not make investments in new assets and any excess cash flow will be returned to shareholders.

Through the creation of REI Global, Lehman Brothers achieves an enterprise solution that removes the vast majority of commercial real estate exposure from the Firm's balance sheet and realizes a true sale of its commercial real estate assets while maximizing their value. Further, it enables shareholders to benefit from the anticipated financial upside of the portfolio of assets.

**Intention to Sell Majority Interest in Investment Management Division**

Lehman Brothers has announced its intent to sell a majority stake (estimated to be approximately 55%) in a subset of its Investment Management Division. The subset of businesses (the "IMD Business") includes the asset management, private equity and wealth management businesses but excludes its middle market institutional distribution business and the Firm's minority stakes in external hedge fund managers. The sale of a majority stake in the IMD Business will enhance the Firm's already strong capital base. Goodwill related to the Neuberger Berman business will be eliminated, resulting in significant improvement in the Firm's Tier 1 ratio and an estimated increase of more than $3 billion in tangible book value. The Firm also expects to maintain the diversification benefits of retaining the majority of the pre-tax income of the Investment Management Division. It also ensures that the IMD Business has the most attractive structure to continue to best serve the Firm's clients and maximize growth opportunities. The IMD Business

will continue to operate under the Lehman Brothers and Neuberger Berman brands and clients will continue to be able to access all of the capabilities of the Firm. The Firm is in advanced discussions with a number of potential partners for the IMD Business and expects to announce the details of the transaction in due course.

**Annual Dividend to be Reduced to $0.05 Per Common Share**

The Firm has decided to reduce its annual common dividend to $0.05 per common share from $0.68 per common share, enabling the Firm to retain $450 million annually.

## OVERVIEW OF PRELIMINARY THIRD QUARTER RESULTS

Lehman Brothers reported a preliminary net loss of approximately ($3.9) billion, or ($5.92) per common share (diluted), for the third quarter ended August 31, 2008, compared to a net loss of ($2.8) billion, or ($5.14) per common share (diluted), for the second quarter of fiscal 2008 and net income of $887 million, or $1.54 per common share (diluted), for the third quarter of fiscal 2007. The net loss was driven primarily by gross mark-to-market adjustments stemming from writedowns on commercial and residential mortgage and real estate assets.

Net revenues (total revenues less interest expense) for the third quarter of fiscal 2008 are expected to be negative ($2.9) billion, compared to negative ($0.7) billion for the second quarter of fiscal 2008 and $4.3 billion for the third quarter of fiscal 2007. Net revenues for the third quarter of fiscal 2008 reflect negative mark-to-market adjustments and principal trading losses, net of gains on certain risk mitigation strategies and certain debt liabilities.

During the fiscal third quarter, the Firm is expected to incur negative gross mark-to-market adjustments on assets of ($7.8) billion, including gross negative mark-to-market adjustments of ($5.3) billion on residential mortgage-related positions, ($1.7) billion on commercial real estate positions, ($600) million on other asset-backed positions and ($200) million on acquisition finance positions. These mark-to-market adjustments were offset by $800 million of hedging gains during the quarter and $1.4 billion of debt valuation gains. The Firm is also expected to record losses on principal investments of approximately $760 million.

In order to increase operating efficiency, the Firm has eliminated approximately 1,500 positions since the beginning of the third quarter in discretionary corporate areas and businesses that are in secular decline.

## Business Segments

**Capital Markets** is expected to report net revenues of negative ($4.1) billion in the third quarter of fiscal 2008, compared to negative ($2.4) billion in the second quarter of fiscal 2008 and $2.4 billion in the third quarter of fiscal 2007. Net revenues from Fixed Income Capital Markets are expected to be negative ($4.6) billion, compared to negative ($3.0) billion in the second quarter of fiscal 2008 and $1.1 billion in the third quarter of fiscal 2007. Equities Capital Markets is expected to report net revenues of $0.5 billion, a decrease from $0.6 billion in the second quarter of fiscal 2008 and a decrease from $1.4 billion in the third quarter of fiscal 2007.

**Investment Banking** is expected to report net revenues of $0.6 billion in the quarter, a decrease from $0.9 billion in the second quarter of fiscal 2008 and a decrease from $1.1 billion in the third quarter of fiscal 2007. Debt underwriting revenues are expected to be $0.2 billion, a decrease from $0.3 billion in the second quarter of fiscal 2008 and a decrease from $0.4 billion in the third quarter of 2007. Equity underwriting revenues are expected to be $0.2 billion, a decrease from $0.3 billion in the second quarter of fiscal 2008 and $0.3 billion in the third quarter of fiscal 2007. Merger and acquisition advisory revenues are expected to be $0.2 billion, consistent with the second quarter of fiscal 2008 and down from $0.4 billion in the third quarter of fiscal 2007.

**Investment Management** is expected to report net revenues of $0.6 billion, a decrease from $0.8 billion in the second quarter of fiscal 2008 and the third quarter of fiscal 2007. Asset management is expected to report revenues of $0.4 billion, a decrease from $0.5 billion in both the second quarter of fiscal 2008 and third quarter of fiscal 2007. Assets under management are expected to be approximately $273 billion, down from $277 billion at the end of the prior quarter. Private Investment Management revenues are expected to be $0.3 billion, down from

$0.4 billion in the second quarter of fiscal 2008 and consistent with $0.3 billion in the third quarter of fiscal 2007.

## Firm Profitability and Capital

Non-interest expenses for the third quarter of fiscal 2008 are expected to be $2.9 billion, compared to $3.4 billion in the second quarter of fiscal 2008 and $3.1 billion in the third quarter of fiscal 2007. Compensation expense is expected to be approximately $2.0 billion in the third quarter of fiscal 2008, compared to $2.3 billion in the second quarter of fiscal 2008. Non-personnel expenses for the period are expected to be approximately $1.0 billion, compared to $1.1 billion in the second quarter of fiscal 2008. The tax rate is 32.6%.

As of August 31, 2008, Lehman Brothers' total stockholders' equity was an estimated $28.4 billion, up from $26.3 billion at the end of the second quarter of fiscal 2008, and the Firm's Tier 1 ratio is expected to be approximately 11.0%. Total long-term capital is expected to be approximately $143.0 billion, reflecting the Firm's June capital raising activities. Book value per common share is estimated to be approximately $27.29. Additionally, through the actions taken during the third quarter, the Firm is expected to reduce its net leverage from 12.1x to 10.6x. These ratios are appropriate for the Firm's expected lower-risk asset composition.

Lehman Brothers (ticker symbol: LEH), an innovator in global finance, serves the financial needs of corporations, governments and municipalities, institutional clients, and high net worth individuals worldwide. Founded in 1850, Lehman Brothers maintains leadership positions in equity and fixed income sales, trading and research, investment banking, private investment management, asset management and private equity. The Firm is headquartered in New York, with regional headquarters in London and Tokyo, and operates in a network of offices around the world. For further information about Lehman Brothers' services, products and recruitment opportunities, visit the Firm's Web site at www.lehman.com.

**About Lehman Brothers' Investment Management Division**

Lehman Brothers' Investment Management Division consists of three businesses: Asset Management, Private Investment Management and Private Equity. Asset Management, which includes Neuberger Berman, offers proprietary products across traditional and alternative asset classes through a variety of distribution channels to individuals and institutions. Private Investment Management offers comprehensive investment, wealth advisory and capital markets execution services for high-net-worth individuals and businesses and leverages all of the resources of the Firm. Private Equity provides investment opportunities in privately negotiated transactions across a variety of asset classes for institutional and qualified individual investors. Since the end of 2003, assets under management (AUM) in Lehman Brothers' Investment Management Division have grown at a compound annual rate of approximately 20%. AUM totaled $273 billion as of August 31, 2008.

*Conference Call*

A conference call to discuss the Firm's preliminary financial results, strategic initiatives and outlook will be held today at 8:00 a.m. ET. The call will be open to the public. For members of the public who would like to access the conference call, it will be available through the "Shareholders" section of the Firm's Web site, http://lehman.com, under the subcategory "Events and Presentations." The conference call will also be available by phone by dialing 800-369-1721 (domestic) or 517-308-9232 (international) at least fifteen minutes prior to the start of the conference call. The passcode for all callers is "7561430". For those unable to listen to the live broadcast, a replay will be available on the Firm's Web site or by dialing 800-337-5613 (domestic) or 402-220-9646 (international). The replay will be available immediately after the beginning of the call and will remain available on the Lehman Brothers Web site and by phone until the Firm's final third quarter earnings release.

Please direct any questions regarding the conference call to Shaun Butler at +1-212-526-8381 or shaun.butler@lehman.com.

*Cautionary Note Regarding Forward-Looking Statements*

This press release may contain forward-looking statements. These statements are not historical facts, but instead represent only the Firm's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include risks and uncertainties relating to market fluctuations and volatility, industry competition and changes in the competitive environment, investor sentiment, liquidity and credit ratings, credit exposures, operational risks and legal and regulatory matters. The Firm's actual results and financial condition may differ, perhaps materially, from the anticipated results and financial condition in any such forward-looking statements and, accordingly, readers are cautioned not to place undue reliance on such statements. The Firm undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. For more information concerning the risks and other factors that could affect the Firm's future results and financial condition, see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Firm's most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q.

The Firm's financial statements for the third fiscal quarter of 2008 are not finalized until they are filed in its Quarterly Report on Form 10-Q for the third fiscal quarter of 2008. The Firm is required to consider all available information through the finalization of its financial statements and the possible impact of such information on its financial condition and results of operations for the reporting period, including the impact of such information on the complex and subjective judgments and estimates the Firm made in preparing certain of the preliminary information included in this Press Release. Subsequent information or events may lead to material differences between the preliminary results of operations described in this Press Release and the results of operations that will be described in the Firm's subsequent earnings release and between such subsequent earnings release and the results of operations described in the Firm's Quarterly Report on Form 10-Q for the third fiscal quarter of 2008. Those differences may be adverse. Readers should consider this possibility in reviewing the earnings information in this Press Release.

**LEHMAN BROTHERS HOLDINGS INC.**
**SELECTED STATISTICAL INFORMATION**
**(Preliminary and Unaudited)**
**(Dollars in millions, except share data)**

| | At or for the Quarter Ended | | | | |
|---|---|---|---|---|---|
| | Aug 31, 2008 | May 31, 2008 | Feb 29, 2008 | Nov 30, 2007 | Aug 31, 2007 |
| **Income Statement** | | | | | |
| Net Revenues | $ (2,903) | $ (668) | $ 3,507 | $ 4,390 | $ 4,308 |
| Non-Interest Expenses: | | | | | |
| Compensation and Benefits | 1,950 | 2,325 | 1,841 | 2,164 | 2,124 |
| Non-personnel Expenses | 971 | 1,094 | 1,003 | 996 | 979 |
| Income before provision for income taxes | (5,824) | (4,087) | 663 | 1,230 | 1,205 |
| Net Income | (3,927) | (2,774) | 489 | 886 | 887 |
| Net Income Applicable to Common Stock | (4,090) | (2,873) | 465 | 870 | 870 |
| Earnings per Common Share: | | | | | |
| Basic | $(5.92) | $(5.14) | $0.84 | $1.60 | $1.61 |
| Diluted | $(5.92) | $(5.14) | $0.81 | $1.54 | $1.54 |
| **Financial Ratios** (%) | | | | | |
| Return on Average Common Stockholders' Equity (annualized) [a] | NM | NM | 8.6% | 16.6% | 17.1% |
| Return on Average Tangible Common Stockholders' Equity (annualized) [b] | NM | NM | 10.6% | 20.6% | 21.1% |
| Pre-tax Margin | NM | NM | 18.9% | 28.0% | 28.0% |
| Compensation and Benefits/Net Revenues | NM | NM | 52.5% | 49.3% | 49.3% |
| Effective Tax Rate | 32.6% | 32.1% | 26.3% | 27.9% | 26.4% |
| **Financial Condition** | | | | | |
| Total Assets | $600,000 | $639,432 | $786,035 | $691,063 | $659,216 |
| Net Assets [c][i] | 310,915 | 327,774 | 396,673 | 372,959 | 357,102 |
| Common Stockholders' Equity [d] | 19,450 | 19,283 | 21,839 | 21,395 | 20,638 |
| Total Stockholders' Equity [d] | 28,443 | 26,276 | 24,832 | 22,490 | 21,733 |
| Total Stockholders' Equity Plus Junior Subordinated Notes [e] | 33,362 | 31,280 | 29,808 | 27,230 | 26,647 |
| Tangible Equity Capital [e] | 29,277 | 27,179 | 25,696 | 23,103 | 22,164 |
| Total Long-Term Capital [f] | 143,043 | 154,458 | 153,117 | 145,640 | 142,064 |
| Book Value per Common Share [g] | 27.29 | 34.21 | 39.45 | 39.44 | 38.29 |
| Leverage Ratio [h] | 21.1x | 24.3x | 31.7x | 30.7x | 30.3x |
| Net Leverage Ratio [i] | 10.6x | 12.1x | 15.4x | 16.1x | 16.1x |
| **Other Data** (#s) | | | | | |
| Employees | 25,935 | 26,189 | 28,088 | 28,556 | 28,783 |
| Assets Under Management (in billions) | $ 273 | $ 277 | $ 277 | $ 282 | $ 275 |
| Common Stock Outstanding (in millions) | 689.0 | 552.7 | 551.4 | 531.9 | 529.4 |
| Weighted Average Shares (in millions): | | | | | |
| Basic | 691.2 | 559.3 | 551.5 | 542.6 | 540.4 |
| Diluted | 691.2 | 559.3 | 572.8 | 563.7 | 565.8 |

See Footnotes to Selected Statistical Information on page 11.

**LEHMAN BROTHERS HOLDINGS INC.**
**FOOTNOTES TO SELECTED STATISTICAL INFORMATION**
**(Preliminary and Unaudited)**

**NM = Not Meaningful**

(a) Return on average common stockholders' equity is computed by dividing annualized net income applicable to common stock for the period by average common stockholders' equity. See the reconciliation on page 16.

(b) Return on average tangible common stockholders' equity is computed by dividing annualized net income applicable to common stock for the period by average tangible common stockholders' equity. Average tangible common stockholders' equity equals average common stockholders' equity less average identifiable intangible assets and goodwill. See the reconciliation on page 16. Management believes tangible common stockholders' equity is a meaningful measure because it reflects the common stockholders' equity deployed in our businesses.

(c) We calculate net assets by excluding from total assets: (i) cash and securities segregated and on deposit for regulatory and other purposes; (ii) collateralized lending agreements; and (iii) identifiable intangible assets and goodwill. See reconciliation on page 19. Net assets as presented are not necessarily comparable to similarly-titled measures provided by other companies in the securities industry because of different methods of presentation.

(d) Effective December 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*. The aggregate impact to opening retained earnings from the adoption of this standard was a decrease of approximately $178 million. Effective December 1, 2006, we adopted both Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The aggregate impact to opening retained earnings from the adoption of these standards was an after-tax increase of approximately $67 million (approximately $113 million pre-tax).

(e) We calculate tangible equity capital by including stockholders' equity and junior subordinated notes and excluding identifiable intangible assets and goodwill. These measures may not be comparable to similarly-titled calculations by other companies as a result of different calculation methodologies. We believe tangible equity capital to be a more meaningful measure of our equity base as it includes stockholders' equity and junior subordinated notes (which we consider to be equity-like instruments due to their subordinated and long-term nature) and excludes identifiable intangible assets and goodwill (which are fully supported by equity). Prior to fiscal year 2008, our definition for tangible equity capital limited the amount of junior subordinated notes and preferred stock included in the calculation to 25% of tangible equity capital. The amounts excluded were approximately $237 million and $375 million in the fourth and third quarters of 2007, respectively. See the reconciliation on page 19.

(f) Total long-term capital includes long-term borrowings (excluding any borrowings with remaining maturities within one year of the financial statement date) and total stockholders' equity. We believe total long-term capital is useful to investors as a measure of our financial strength.

(g) The book value per common share calculation includes amortized restricted stock units granted under employee stock award programs, which have been included in total stockholders' equity.

(h) Leverage ratio is defined as total assets divided by total stockholders' equity.

(i) Net leverage ratio is defined as net assets (see note (c) above) divided by tangible equity capital (see note (e) above). We believe net leverage based on net assets to be a more useful measure of leverage, because it excludes certain low-risk, non-inventory assets and utilizes tangible equity capital as a measure of our equity base. Net leverage as presented is not necessarily comparable to similarly-titled measures provided by other companies in the securities industry because of different methods of presentation.

**LEHMAN BROTHERS HOLDINGS INC.**
**CONSOLIDATED STATEMENT OF INCOME**
**(Preliminary and Unaudited)**
**(In millions, except per share data)**

| | Quarter Ended | | | % Change from | |
|---|---|---|---|---|---|
| | **Aug 31, 2008** | **May 31, 2008** | **Aug 31, 2007** | **May 31, 2008** | **Aug 31, 2007** |
| Revenues: | | | | | |
| Principal transactions | $ (5,273) | $ (3,442) | $ 1,612 | | |
| Investment banking | 611 | 858 | 1,071 | | |
| Commissions | 569 | 639 | 674 | | |
| Interest and dividends | 6,064 | 7,771 | 10,910 | | |
| Asset management and other | 432 | 414 | 472 | | |
| Total revenues | 2,403 | 6,240 | 14,739 | | |
| Interest expense | 5,306 | 6,908 | 10,431 | | |
| Net revenues | (2,903) | (668) | 4,308 | NM | NM |
| Non-interest expenses: | | | | | |
| Compensation and benefits[a] | 1,950 | 2,325 | 2,124 | | |
| Technology and communications | 309 | 309 | 282 | | |
| Brokerage, clearance and distribution fees | 232 | 252 | 224 | | |
| Occupancy | 202 | 188 | 170 | | |
| Professional fees | 104 | 100 | 128 | | |
| Business development | 68 | 87 | 91 | | |
| Other [b] | 56 | 158 | 84 | | |
| Total non-interest expenses | 2,921 | 3,419 | 3,103 | (15)% | (6)% |
| Income before provision for income taxes | (5,824) | (4,087) | 1,205 | | |
| Provision for income taxes | (1,897) | (1,313) | 318 | | |
| Net income | $(3,927) | $(2,774) | $ 887 | (42)% | NM |
| Net income applicable to common stock | $(4,090) | $(2,873) | $ 870 | (42)% | NM |
| Earnings per common share: | | | | | |
| Basic | $ (5.92) | $ (5.14) | $ 1.61 | (15)% | NM |
| Diluted | $ (5.92) | $ (5.14) | $ 1.54 | (15)% | NM |

[a] For the quarters ended August 31 and May 31, 2008, approximately $30 million and $140 million, respectively, of severance are included in Compensation and benefits.

[b] For the quarters ended May 31, 2008 and August 31, 2007, approximately $20 million and $44 million, respectively, of costs associated with the restructuring of the Firm's global residential mortgage origination business have been included in Other expenses.

**LEHMAN BROTHERS HOLDINGS INC.**
**RECONCILIATION OF AVERAGE STOCKHOLDERS' EQUITY TO AVERAGE TANGIBLE COMMON STOCKHOLDERS' EQUITY**
**(Preliminary and Unaudited)**
**(In millions)**

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | **Aug 31, 2008** | **May 31, 2008** | **Feb 29, 2008** | **Nov 30, 2007** | **Aug 31, 2007** |
| Annualized net income applicable to common stock | $ (16,360) | $ (11,491) | $ 1,860 | $ 3,479 | $ 3,480 |
| Average stockholders' equity | $ 27,360 | $ 25,554 | $23,661 | $22,112 | $21,431 |
| Less: average preferred stock | (7,993) | (4,993) | (2,044) | (1,095) | (1,095) |
| Average common stockholders' equity | 19,367 | 20,561 | 21,617 | 21,017 | 20,336 |
| Less: average identifiable intangible assets and goodwill | (4,093) | (4,107) | (4,120) | (4,118) | (3,880) |
| Average tangible common stockholders' equity | $ 15,274 | $ 16,454 | $17,497 | $16,899 | $16,456 |
| Return on average common stockholders' equity | NM | NM | 8.6% | 16.6% | 17.1% |
| Return on average tangible common stockholders' equity | NM | NM | 10.6% | 20.6% | 21.1% |

**LEHMAN BROTHERS HOLDINGS INC.**
**ASSETS UNDER MANAGEMENT**
**(Preliminary and Unaudited)**

| Composition of Assets Under Management (In billions) | At | | |
|---|---|---|---|
| | Aug 31, 2008 | May 31, 2008 | Aug 31, 2007 |
| Equity | $ 98 | $109 | $104 |
| Fixed Income | 93 | 75 | 72 |
| Money Markets | 44 | 54 | 69 |
| Alternative Investments | 38 | 39 | 30 |
| Assets Under Management | $273 | $277 | $275 |

| Assets Under Management Rollforward (In billions) | Quarter Ended | | |
|---|---|---|---|
| | Aug 31, 2008 | May 31, 2008 | Aug 31, 2007 |
| Opening balance | $277 | $277 | $263 |
| Net additions/(subtractions) | 11 | (9) | 15 |
| Net market appreciation/(depreciation) | (15) | 9 | (3) |
| Total increase/(decrease) | (4) | — | 12 |
| Ending balance | $273 | $277 | $275 |

**LEHMAN BROTHERS HOLDINGS INC.**
**VALUE-AT-RISK (VaR) SUMMARY**
**(Preliminary and Unaudited)**

**VaR – Historical Simulation[a]**
**(In millions)**

| Weighted basis | At | | Average VaR Three Months Ended | | Three Months Ended Aug 31, 2008 | |
|---|---|---|---|---|---|---|
| | Aug 31, 2008 | May 31, 2008 | Aug 31, 2008 | May 31, 2008 | High | Low |
| Interest rate risk | $101 | $88 | $103 | $109 | $126 | $86 |
| Equity price risk | 49 | 41 | 39 | 46 | 49 | 25 |
| Foreign exchange risk | 5 | 10 | 9 | 13 | 13 | 4 |
| Commodity risk | 14 | 12 | 15 | 12 | 19 | 11 |
| Diversification benefit | (58) | (47) | (56) | (57) | | |
| | $111 | $104 | $110 | $123 | $130 | $99 |

| Unweighted basis | At | | Average VaR Three Months Ended | | Three Months Ended Aug 31, 2008 | |
|---|---|---|---|---|---|---|
| | Aug 31, 2008 | May 31, 2008 | Aug 31, 2008 | May 31, 2008 | High | Low |
| Interest rate risk | $69 | $63 | $69 | $71 | $76 | $63 |
| Equity price risk | 41 | 33 | 36 | 36 | 46 | 25 |
| Foreign exchange risk | 5 | 10 | 9 | 14 | 12 | 4 |
| Commodity risk | 14 | 12 | 15 | 12 | 19 | 11 |
| Diversification benefit | (45) | (43) | (49) | (49) | | |
| | $84 | $75 | $80 | $84 | $92 | $72 |

(a) VaR is a statistical measure of the potential loss in the value of a trading portfolio due to adverse market movements of the underlying risk factors. VaR for our financial instrument inventory positions, estimated at a 95% confidence level over a one-day time horizon. This means that there is a 1-in-20 chance that daily trading net revenue losses on a particular day would exceed the reported VaR.

**LEHMAN BROTHERS HOLDINGS INC.**
**LEVERAGE and NET LEVERAGE CALCULATIONS**
**(Preliminary and Unaudited)**
**(In millions)**

| | At | | | | |
|---|---|---|---|---|---|
| | **Aug 31, 2008** | **May 31, 2008** | **Feb 29, 2008** | **Nov 30, 2007** | **Aug 31, 2007** |
| Net assets: | | | | | |
| Total assets | $600,000 | $639,432 | $786,035 | $691,063 | $659,216 |
| Less: | | | | | |
| Cash and securities segregated and on deposit for regulatory and other purposes | (12,000) | (13,031) | (16,569) | (12,743) | (10,579) |
| Collateralized lending agreements | (273,000) | (294,526) | (368,681) | (301,234) | (287,427) |
| Identifiable intangible assets and goodwill | (4,085) | (4,101) | (4,112) | (4,127) | (4,108) |
| Net assets | $310,915 | $327,774 | $396,673 | $372,959 | $357,102 |
| Tangible equity capital: | | | | | |
| Total stockholders' equity | $ 28,443 | $ 26,276 | $ 24,832 | $ 22,490 | $ 21,733 |
| Junior subordinated notes [a] | 4,919 | 5,004 | 4,976 | 4,740 | 4,539 |
| Less: Identifiable intangible assets and goodwill | (4,085) | (4,101) | (4,112) | (4,127) | (4,108) |
| Tangible equity capital [a] | $ 29,277 | $ 27,179 | $ 25,696 | $ 23,103 | $ 22,164 |
| Leverage (total assets / total stockholders' equity) | 21.1x | 24.3x | 31.7x | 30.7x | 30.3x |
| Net leverage (net assets / tangible equity capital) | 10.6x | 12.1x | 15.4x | 16.1x | 16.1x |

[a] Prior to fiscal year 2008, our definition for tangible equity capital limited the amount of junior subordinated notes and preferred stock included in the calculation to 25% of tangible equity capital. The amounts excluded were approximately $237 million and $375 million in the fourth and third quarters of 2007, respectively.

**LEHMAN BROTHERS HOLDINGS INC.**
**RECONCILIATION TO RUN-RATE REVENUES**
**(Preliminary and Unaudited)**
**(In billions)**

| | August 31, 2008 | | | | |
|---|---|---|---|---|---|
| | **Estimated Net Revenues** | **MTM Adjustments[1]** | **Principal/ Defensive Trading** | **Debt Valuation** | **Run-Rate Revenues** |
| Total | ($2.9) | ($7.0) | ($0.8) | $1.4 | $3.5 |
| Capital Markets | (4.1) | (7.0) | (0.7) | 1.4 | 2.2 |
| Fixed Income | (4.6) | (7.1) | (0.4) | 1.1 | 1.8 |
| Equities | 0.5 | 0.1 | (0.3) | 0.3 | 0.4 |

| | May 31, 2008 | | | | |
|---|---|---|---|---|---|
| | **Net Revenues** | **Net MTM Adjustments[1]** | **Principal/ Defensive Trading** | **Debt Valuation** | **Run-Rate Revenues** |
| Total | ($0.7) | ($4.1) | ($1.2) | $0.4 | $4.2 |
| Capital Markets | (2.4) | (4.1) | (1.3) | 0.4 | 2.6 |
| Fixed Income | (3.0) | (4.1) | (1.0) | 0.3 | 1.8 |
| Equities | 0.6 | — | (0.3) | 0.1 | 0.8 |

[1] The net impact represents the remaining impact from the components after deducting the impact of certain economic risk mitigation strategies.